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RUEHOT/AMEMBASSY OTTAWA PRIORITY 1177
RUEHKO/AMEMBASSY TOKYO PRIORITY 1176
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C O N F I D E N T I A L SECTION 01 OF 03 LONDON 002603

SIPDIS

EO 12958 DECL: 10/15/2018
TAGS ECON, EINV, PGOV, UK
SUBJECT: BROWN RECEIVES BOUNCE FROM BAIL-OUT PLAN;
INVESTORS STILL CAUTIOUS

Classified By: Classified by Acting Minister Counselor Kathleen Doherty for reasons 1.4 b and d.

1. (SBU) Summary: The U.K. government's agreement to pump GBP 37 billion into three of Britain's largest banks, along with similarly dramatic Pumping Up The Volume

2. (SBU) Following a weekend of talks with Britain's largest banks, HMG agreed to inject GBP 37 billion into three banks: Royal Bank of Scotland
Waiting to Exhale

3. (C) Although stock prices have made some gains, and inter-bank lending has started - though just a trickle in volume - industry leaders believe

4. (SBU) Others are concerned about the macro-economic situation. Inflation has jumped to 5.2 percent in September, above the BOE expected 5 percent. Unemployment rose to 5.5 percent, and the number of unemployed workers to 1.79 million, the largest rise since 1991. The weakening global economy is also affecting the UK's trade deficit. Although it narrow

A New Dawn For Brown

5. (SBU) After a year of plummeting poll numbers and questions about his ability to lead, Gordon Brown is suddenly riding high. On October 13,

6. (C/NF) Brown and Labour are up in the polls: a YouGov/Sunday Times poll released on October 13 showed Labour popularity at 33 percent, up from 28 percent in July. The Tories are down to 27 percent, down from 31 percent in July.
Consensus For Now - But The Gauntlet Is Laid Down

7. (C/NF) The Tories have expressed support for the bail-out package, acknowledging that there was no other option when faced with the collapse of the financial system.
Comment

8. (C) Reaction in London to the U.K. economic rescue plan has been more muted than expected, with the stock market down nearly 3 percent in the morning. The plan is seen as sufficient to unlock paralyzed inter-bank lending and to start restoring credit in the faltering financial system. The U.K. government and investors are optimistic.
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